

April 16, 2019

Board of Trustees  
Fitchburg State University  
Fitchburg, MA 01420

**SUBJECT: FY2020 BUDGET NARRATIVE**

While the performance of the economy continues to be strong, the University is not directly benefiting from the situation. With the state appropriation proposal anticipated to only partially fund the increased personnel costs associated with collective bargaining, the trend toward declining support from the Commonwealth continues. This results in an obligation to cover the balance of these costs with university generated revenues. Meanwhile, with demands from the public to minimize student debt, the University is experiencing pressure from all sides to control costs. The steps taken in past years to increase revenues while at the same time closely managing costs, has provided the University the financial footing to navigate these and other previously anticipated challenges. The predicted demographic decline in traditional age undergraduate students, as well as declines in participation in traditional graduate and continuing education programs are of paramount concern. Given those considerations, the University asked each division to prepare their FY20 operating budget based on a five percent reduction.

The University has begun to see the effects of the demographic trend of declining traditional undergraduate populations, which are expected to continue throughout much of the upcoming decade. As such, the continued efforts to increase retention and serve non-traditional populations via non-traditional modes of delivery will be increasingly important to the University's performance. The University continues to focus on supporting and strengthening high quality academic programs; launching new programs that will provide instruction in high demand industries that will also serve to increase retention in target student populations; and continues to expand the online education programs as evidence of the University taking timely steps to prepare for its present and future.

Of great significance is the positive performance of the accelerated online degree programs, which were launched in AY2017-18. With new concentrations being added for AY19-20, and enrollments exceeding expectations, the programs are providing substantial support to the University bottom line, providing an expected contribution of more than 2.4 million dollars.

What follows is an overview of our budget proposal for Fiscal 2020.

## *Budget in Brief*

### **FY2020 Operating Budget**

#### **Highlights**

Even with the efforts to control costs, and the success of the accelerated online programs, the University must face the challenges of declining undergraduate enrollment trends, declining traditional graduate program participation, and payroll expense increases. As such, the University proposes a 2% increase to the University Fee only for the coming year to keep the structural deficit from growing. This fee increase will allow the University to remain toward the bottom of the state university system for combined tuition and fee distribution (see Appendix). To ensure that the costs associated with the decline in traditional graduate program revenues are not borne by the day program participants, that deficit will be covered from the Graduate and Continuing Education (GCE) fund balance.

#### **FY2020 Operating Budget Scenario**

This scenario depicts our state funding forecast with the state appropriation of \$31,603,752, estimated collective bargaining funding of \$300,000, formula funding of \$294,008, and total revenue of \$113,815,954 (column E, line 23). The projected deficit day is \$1,510,617 and evening is \$500,947. The overall goal is to strike a balance between fee increases and maintain adequate cash reserves, while remaining conscious of the cost of education for our students and their families, and the competitive higher education market. With the proposed fee increase, and utilization of a portion of the existing GCE fund balance, the University will balance the FY20 budget with unrestricted assets and still maintain adequate reserves.

#### **Summary of Revenue Sources (Budget Scenario, Column E, Line 23)**

Increases in revenue derive from the partial funding of collective bargaining increases for what will be the third and final year of the new contracts. The other primary increase to revenues is the accelerated online degree programs, which will increase total revenue by \$3,139,544.

<b>FY2020 Revenue Sources</b>	
State Appropriation	31,603,752
Collective Bargaining/Other	594,008
Financial Aid	7,300,000
Grants	1,150,000
Auxiliary	16,231,139
Tuition and Fees	51,953,080
Investment Income	512,644
Sales and Service	2,193,767
Foundation	266,000
Unrestricted Assets Day	1,510,617
Unrestricted Assets	<u>500,947</u>
Total	<u>113,815,954</u>

**Summary of Operating Expenses  
(Budget Scenario, Column E, Line 41)**

Total operating expenses are projected to be \$113,815,954. The bulk of these expenses consist of faculty and staff salaries and related personnel expenses (now approximately 48% of the budget), student aid and scholarships, physical plant expenditures, technology costs, and departmental operating budgets.

Salaries and Benefits	54,062,127
Financial Aid	7,300,000
Grants	1,150,000
Auxiliary Services	16,231,139
Utilities/Space	3,575,550
Scholarships/Insurance	2,902,059
Information Technology	4,592,125
Capital	4,725,000
Operation & Maintenance	13,662,468
Debt Service	<u>5,615,486</u>
Total	<u>113,815,954</u>

**Summary of Operating Funds**

The University budget is composed of two primary sources: state appropriations and funds held in trust. The various trust funds come from fees, grants, auxiliary activities and other sources. State appropriations are estimated at \$32.2M, Trust funds from tuition and fees \$56.6M, Auxiliary \$16.2M and Financial Aid, Grants, etc. at \$8.8M.

C81/C90	State Maintenance/Coll Barg/FF	32,197,760
T65/T65P	University Fee	36,504,837
T10/T19	Continuing Education CPS	6,676,674
	Accelerated On Line Programs	4,139,041
T11	Student Activity	400,000
T16	Technology Fee	1,350,042
T22	Dorm Authority	11,831,139
T25	Food Service	4,400,000
T24	General Purpose	133,125
T26	Student Financial Aid	31,200
T36	Summer Conference	129,650
T37	Bookstore Trust Fund	150,000
T38	Parking Scholarship	25,000
T99	Out of State Tuition	1,400,000
N91/N93	Retirement of Debt	5,615,486
F13	Federal Work Study	260,060
Transfer	Fin Aid, Grants, Clubs, etc.	<u>8,571,940</u>
		<u>113,815,954</u>

**Staffing**

The leadership team of the University continues to evaluate and capitalize on staffing vacancies to redeploy resources that strategically serve current and future needs. However, it is important to note that our state appropriation of \$31.9 million still falls well short of the \$42.2 million needed to fully fund our payroll. This shortfall is further compounded because every payroll dollar not

covered by the state appropriation adds an additional 35.55% percent to cover employee fringe benefits – or an additional \$3.6 million.

The three collective bargaining units, MSCA, APA, and AFSCME, have finally completed contract negotiations and ratified their contracts. While it appears all of these contracts will be finalized in the near future, in all cases FY20 will be the third and final year of these contracts. The Commonwealth issued partial funding of the retroactive payment of increases for FY18 and FY19 for the APA and AFSCME contracts to the University. Further, the state appropriation for FY20 does include an increase to support the cost associated with the APA and AFSCME agreements, however that increase provides approximately half the amount needed to fully fund the obligations associated with the contracts. Additionally, it is important to note the funding for the MSCA contract is not presently incorporated into the proposed state appropriation. Until this agreement, and the appropriation to fund them is finalized, the compounded cost of these agreements defaults to the University.

### **Graduate and Continuing Education Division**

The University effort to increase enrollments and revenues by partnering with an external agency to support online degree program delivery has been successful and is providing a substantial revenue contribution above expectations for FY19. Further growth is anticipated for FY2020, and will be bolstered by the addition of new concentrations within the already robust MBA program.

However, at the same time that this growth is occurring, the traditional GCE programs are all facing enrollment declines similar to the day program. Due to trust fund and statutory requirements, this unit is required to be self-supporting, and to insure this deficit does not impact the day program of the university, the existing fund balance will be used in FY20 as an interim solution to offset this performance. Additionally, the GCE unit has initiated activities to enhance and streamline communications, and to re-evaluate marketing program efforts, as steps to address this recent decline in enrollment.

The University is also recommending the establishment of a separate trust fund account for the accelerated online programs, so that the performance of each segment within the GCE division can be tracked separately. It is anticipated that as these functions are segmented, there will be some cost shifting (such as personnel and administrative supports) that will be allocated to the accelerated online segment, so that both the revenues and expenses are recognized equitably.

### **Facility and Technology Improvement Program**

The University has continued to deploy funds toward capital renewal, and significant investments, alone or in partnership with DCAMM and the MSCBA, continue to improve the learning, living,

and working environment of the campus. Key among these recent and current undertakings is the ongoing work to completely renovate Percival Hall with the 3<sup>rd</sup> phase of construction slated for Summer/Fall of 2019.

Additionally, in FY19 DCAMM launched a new program to provide planned and predictable funding for a five year deferred maintenance program. They have also announced an additional initiative for infrastructure project funding. The University is required to provide a 35% match for each project, but is able to locally prioritize the projects and leverage funding to incorporate these funds into larger, more comprehensive changes to the physical environment. Initially funded projects for FY19 include the planned Thompson and Edgerly window replacements and the Recreation Center roof replacement and entranceway improvements. Overall funds committed by DCAMM for the 5-year program total will exceed seven million dollars.

The University also continues to partner with the MSCBA, which is providing both bonding and project management for both residential and student life facilities, including the Mara Commons accessibility and landscape improvement project.

With the matching funding received for several of these projects, and continued and careful monitoring of current debt and capital fee revenues, no increase to the capital fee will be required to fund or cover the debt service associated with these projects. The University continues to stay under the threshold debt range stipulated by BHE, while at the same time providing the 5% investment in physical facilities that is required.

In FY 19, the IT department began its first year of a five-year plan designed for the renewal of systems and equipment that serve the student community. The previous fee increase, coupled with performance of the accelerated online program enrollments, are providing the necessary funds to sustain these initiatives. The ever-increasing demand for these services and capabilities, in addition to rapidly improving and changing technologies, requires a substantial and continued investment.

## **Summary**

This budget plan represents ongoing efforts to wisely invest in the future success of the University, while at the same time demonstrates continued diligence in both cost containment and new revenue generation. With the only increases in costs driven by collective bargaining and the online accelerated programs (whose revenues far exceed the cost), the overall operating budget is otherwise being held level. By recognizing and planning for the future enrollment challenges and the current, recognized realities of state funding resulting in the current budgetary climate, the University is taking proactive steps to ensure a successful financial future.

Appendix:

FY2020 State University Tuition and Fee Comparisons

Fitchburg State University Net Price 5-Year History (for students receiving financial aid)